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July 29, 2009

VIA ELECTRONIC FILING

The Honorable Charles Terreni
Chief Clerk of the Commission
Public Service Commission of South Carolina
Post Office Drawer 11649
Columbia, SC 29211

IN RE: Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of Piedmont
Natural Gas Company, Incorporated
Docket No. 2009-4-G

Dear Mr. Terreni:

Enclosed please find the Joint Proposed Order of ORS and Piedmont Natural Gas in Docket No. 2009-4-G. Should you have any questions regarding the Proposed Order, please contact either myself or Mr. Jeffries at your convenience.

Sincerely,


Jeffrey M. Nelson

JMN/clm

cc: James Jeffries

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2009-4-G

IN RE:

Annual Review of Purchased Gas)	JOINT PROPOSED
Adjustment and Gas Purchasing)	ORDER RULING ON PURCHASED
Policies of Piedmont Natural Gas)	GAS ADJUSTMENT AND GAS
Company, Incorporated)	PURCHASING POLICIES

The above-captioned matter is before the Public Service Commission of South Carolina (“Commission”) concerning its annual review¹ of the Purchased Gas Adjustment (“PGA”) and gas purchasing policies of Piedmont Natural Gas Company, Inc. (“PNG”). The South Carolina Office of Regulatory Staff (“ORS”) is a party of record in this proceeding under the provisions of S.C. Code Ann. § 58-4-10(B) (Supp. 2008). PNG and ORS (collectively the “Parties” or individually a “Party”) entered into a Settlement Agreement (“Settlement Agreement”) which was filed with the Commission on July 7, 2009.

The Commission conducted a formal hearing in this matter on July 15, 2009, beginning at 10:30 a.m. in the hearing room of the Commission with the Honorable Elizabeth B. Fleming, Chairman, presiding. Jeffrey M. Nelson, Esquire and Shealy Boland Reibold, Esquire appeared on behalf of ORS. James H. Jeffries, IV, Esquire and Jeremy Hodges, Esquire appeared on behalf of PNG.

At the hearing, the Commission accepted into the record the pre-filed direct testimony of PNG witness Keith P. Maust and the pre-filed direct testimony and exhibits of PNG witnesses Robert L. Thornton and William C. Williams, as well as the pre-filed direct testimony and

¹ See Commission Order No. 88-294 dated April 6, 1988 (annual review).

exhibits of ORS witness Daniel F. Sullivan and the pre-filed direct and settlement testimony of Carey M. Flynt The Commission also accepted into evidence the Settlement Agreement as Hearing Exhibit No. 1. Mr. Sullivan's exhibits were admitted into evidence as composite Hearing Exhibit No. 2. Mr. Williams' exhibits were entered into evidence as composite Hearing Exhibit No. 3. Mr. Thornton's exhibits were admitted into evidence as composite Hearing Exhibit No. 4.

PNG witness Maust testified as to PNG's gas purchasing policies and the components of the "best cost" gas purchasing policy. Mr. Maust testified that PNG did not implement any changes in its "best cost" gas purchasing policies or practices during the Review Period (April 1, 2008 to March 31, 2009) and PNG's hedging plan accomplished its goal of reducing gas cost volatility to South Carolina customers purchasing gas from PNG. Mr. Maust testified that PNG's South Carolina customers incurred a net economic cost of \$26,349,589 as a result of PNG's hedging plan during the Review Period but that a substantial portion of these costs was (1) subject to change based on changes that may occur in the commodities futures market for natural gas between now and the date these hedges mature; and (2) for hedges outside the Review Period in this proceeding. Mr. Maust also testified that the "best cost" purchasing policy utilized by PNG has been reviewed and found prudent on all occasions in South Carolina and the other state jurisdictions in which PNG operates.

PNG witness Thornton testified that following the issuance of the Commission's 2008 review of PNG's gas costs, PNG made several further adjustments to PNG's Account 253.04 related to incorrectly recorded prior period gas cost entries, incorrect cash-out entries, and a corrected Lost and Unaccounted For true-up entry. PNG witness Thornton further testified that these adjustments to Account 253.04, all of which related to prior periods, were reported to and

reviewed by the ORS and that the ORS agreed with the adjustments. These adjustments are reflected in the ending balance of that account for this Review Period.

PNG witness Williams testified that PNG serves approximately 132,000 customers in South Carolina and during the twelve month period ending March 31, 2009, Piedmont delivered approximately 22,732,000 dekatherms of natural gas to its South Carolina customers. Williams testified that PNG has continued to experience a reduction in weather normalized usage per customer which may be due to the efficiency of new appliances used by customers as well as increased price awareness and conservation efforts on the part of customers. Williams further testified that PNG and the natural gas industry have not seen evidence that conservation/reduced usage occurs during design day conditions. In his testimony, Mr. Williams also proposed revisions to Piedmont's transportation tariffs designed primarily to consolidate the monthly imbalance management and cash-out procedures into a single new Rate Schedule 207. According to Mr. Williams, the proposed tariff revisions will "simplify the structure of our tariffs and avoid any possibility of inconsistent provisions between our various transportation rate schedules . . . [and will] make the administration of various special transportation contracts easier" The proposed tariff revisions will also clarify and strengthen the language of Piedmont's tariffs to ensure that it is absolutely clear that intra-month transportation imbalances are only permitted to be incurred for operational reasons and to permit Piedmont to enforce that requirement.

ORS witness Sullivan testified that ORS had performed an examination of deferred account #253.04 for the Review Period. He testified that account #253.04 is accurately stated and that the balance of \$25,556,246 fairly represents PNG's under-collection balance as of March 31, 2009.

ORS witness Flynt testified that PNG had adequate firm supplies to meet its firm customer requirements; is continuing its attempts to get the best terms available in its negotiations with suppliers; has used the spot market to prudently purchase supplies at prices competitive with industrial alternate fuels, as well as reducing costs to high priority customers; managed its hedging program in a reasonable and prudent manner during the Review Period; and is prepared to meet forecasted future demand requirements. In addition, Ms. Flynt testified that ORS supported PNG's proposed revisions to the company's transportation rate schedules and did not recommend any change to the benchmark cost of gas at this time.

In the settlement testimony, ORS witness Flynt testified that ORS has determined that the terms of the Settlement Agreement serve the public interest and the Settlement Agreement is offered by all parties as a fair, reasonable and full resolution of all issues in this proceeding. The Settlement Agreement balances the concerns of the using public and preserves the financial integrity of PNG.

The July 7, 2009 Settlement Agreement reflected the Parties' agreement that: (i) PNG's gas purchasing policies and practices during the Review Period were reasonable and prudent; (ii) PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period; (iii) PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders; and (iv) the end-of-period balances for PNG's hedging and deferred gas costs accounts are those reflected in the testimony of ORS witness Daniel F. Sullivan.

NOW, THEREFORE, based upon the foregoing, IT IS HEREBY DECLARED AND ORDERED THAT:

1. The pre-filed direct testimony of PNG witness Keith P. Maust and the pre-filed direct testimony and exhibits of PNG witnesses Robert L. Thornton and William C. Williams are accepted into the record without objection.

2. The pre-filed direct testimony and exhibits of ORS witnesses Daniel F. Sullivan and the pre-filed direct testimony and settlement testimony of Cary M. Flynt are accepted into the record without objection.

3. The Settlement Agreement is accepted into the record and incorporated into and part of this Order by reference and, based upon the testimony and exhibits presented at the Hearing of this matter, is found to be in the public interest and constitutes a reasonable resolution of this proceeding.

4. PNG's gas purchasing policies and practices during the Review Period were reasonable and prudent.

5. PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period.

6. PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders.

7. The end-of-period balances for PNG's hedging and deferred gas cost accounts are those reflected in the testimony of ORS witness Daniel F. Sullivan.

8. PNG is authorized to place its proposed tariff changes into effect as of September 1, 2009.

9. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Elizabeth B. Fleming, Chairman

ATTEST:

John E. Howard, Vice-Chairman